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SIPDIS

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STATE PASS TO USTR FOR SCRININ, LYANG
USAID FOR AA/LAC ADOLFO FRANCO
TREASURY FOR OSIA MAUREEN WAFER
COMMERCE ITA SARAH COOK
NSC FOR MIKE DEMPSEY
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E.O. 12958: N/A

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SUBJECT: PARAGUAY'S UNEMPLOYMENT RATE FALLS BUT
UNDEREMPLOYMENT REMAINS HIGH

1. Summary: The GOP's annual unemployment report indicates that open unemployment fell to 10.9 percent of the labor force in 2004 from 13 percent in 2003. However, another 24 percent of the population is classified as under-employed, meaning that more than a third of the work force has less work than it would like. The report also classifies people working in the family with no remuneration (13 percent of the labor force) as employed. The report indicates that 40% of the labor force is self-employed, and casual observation would suggest that most are among the lower rungs of the economy. The GOP considers persons ten years of age or older as part of the potential workforce, although the report claims that only about 20 percent of young workers (10-14) participate in the work force. The data indicates some marginal improvement, but highlight the insufficient rate of job creation in Paraguay's economy. End Summary.

2. According to the General Office of Statistics, Surveys, and Census (DGEEC), the total unemployment rate for 2004 was 10.9%, down from 13.0% in 2003. In 2004, 76.4% of the total population (5,701,675) was of working age (10 years or older), and the DGEEC classified 63.4% of these workers as Economically Active Persons (PEA), defined as those employed or those unemployed seeking work. In 2003, only 60.6% of the working age population was classified as economically active. The combination of a larger percentage of economically active persons and a lower unemployment rate suggests an improving labor market: the labor pool has grown, while at the same time the share of those unable to find work has decreased. Note: the DGEEC publishes unemployment data only annually. End note.

3. A closer look reveals a less positive picture of the labor market. The DGEEC report includes a footnote to explain the inclusion of persons as young as 10 years old as part of the labor force. It says "information is collected about persons ten years old and above for a better characterization of the labor market given the particular national economic reality." The report includes a chart estimating that only about 20% of Paraguayans from 10 to 14 years of age participate in the labor force. That percentage is an average of about 25 percent for boys and 15 percent for girls in that age group.

4. Employment rates by themselves are insufficient when assessing the state of an economy, i.e. a low unemployment rate does not automatically imply a healthy economy. The level of sub-employment is thus an important indicator of macroeconomic behavior. The DGEEC defines two types of sub-employment: visible and invisible. Visible sub-employment occurs when a person works for less than 30 hours a week, but wishes to work more and is making an effort to do so. The DGEEC defines invisible sub-employment as comprising those workers who work more than 30 hours a week, but are paid less than the minimum wage. Paraguay's overall sub-employment rate has remained fairly stable, around 24% of PEA, since 2001, with 8% visibly and 16% invisibly sub-employed in 2004.

5. According to the report, 210,017 new jobs were created in 2004, to include workers classified as self employed. In addition to general economic recovery, this increase was largely due to a 10.6% (97,270) increase in the number of self-employed workers as well as the relative success of small businesses. Currently around 40% of the workforce is classified as self-employed, with an additional 13% classified as employed, but working within the family without remuneration. Around 70% of the PEA claims to work for a business with less than 5 employees, highlighting the prevalence of micro-enterprises.

Comment

6. Although the total unemployment rate has dropped, other

factors remain troublesome. The relatively high sub-employment rate has not improved in recent years, reflecting the economy's inability to generate more full-time, formal jobs. Adding both rates, the report notes that 35 percent of the work force has some employment problem, with the rate higher (40 percent) in urban areas than in rural ones (28 percent). One might conclude that the 13 percent considered employed but working in their families without remuneration might prefer paid work and could better be considered unemployed or sub-employed. Also, self-employed workers as a whole are likely to earn less than the minimum wage and to lack access to Paraguay's social security system.

17. The overall quality of the survey is difficult to determine. The data is collected from August to December, and released five or so months later as an annual report. Anecdotal experience would suggest that the open unemployment rate of 10.9 percent is an underestimation of the real rate, although the high rate of sub-employment may well capture the reality of insufficient job creation in Paraguay.

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